

DenizBank Economic Update

June 2017

- **Economy**
- **Financial Markets**
- **Banking Sector**

Economic Research and Strategy

Saruhan Özel, Ph.D.

Ezgi Gülbaş

Orhan Kaya

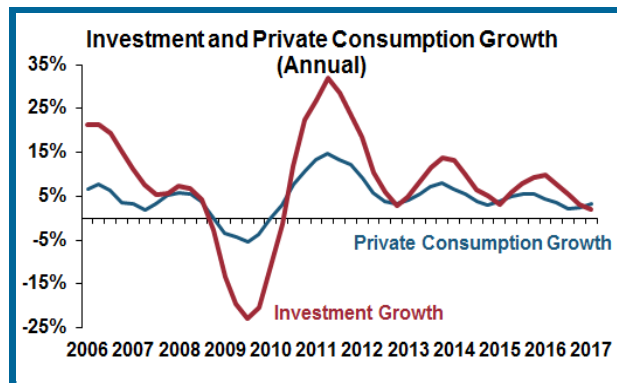
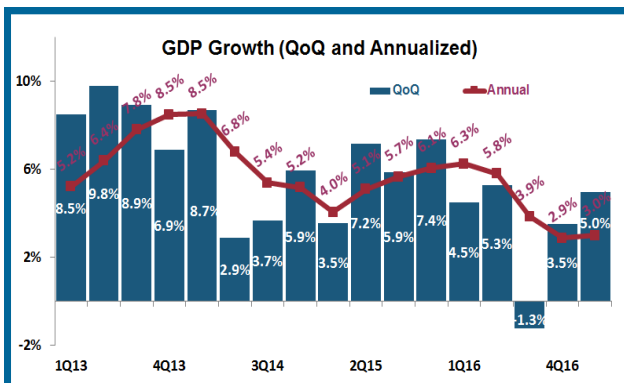
Deniz Bayram



DenizBank Economic Update

Economy (I)

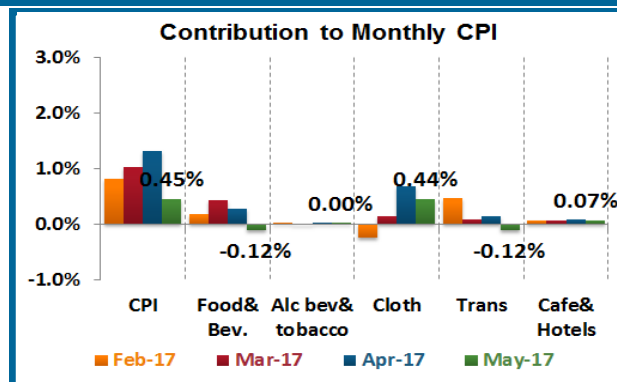
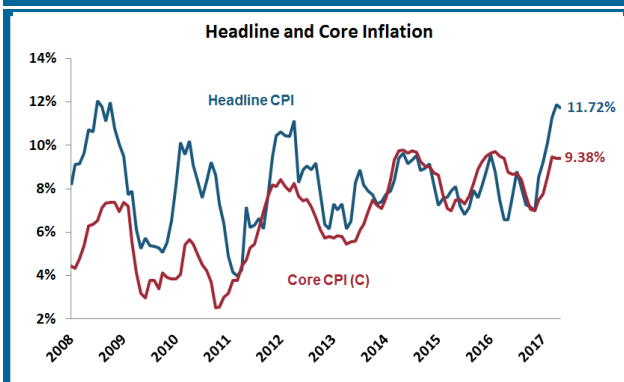
Growth



Growth in 1Q17 exceeds expectations, driven by public spending and exports...

- GDP growth accelerated to 5.0% in 1Q17 (vs. 1Q16) from 3.5% in 4Q16, exceeding market expectation of 3.5%. Seasonally and calendar adjusted quarterly growth rate was also strong (1.4%).
- Looking at the breakdown by expenditures, drivers of the strong growth were the expansion in both government and private consumption and jump in exports. While growth in public consumption increased to 9.4% from 0.8% in the last quarter of 2016, private consumption, which makes up 61% of GDP, went up by 5.1%. Also, exports grew by 10.6% due to the recovery in Eurozone economic activity and depreciation in TL. On the other hand, investment spending went up by only 2.2%, driven by construction sector.
- The positive impact of government policies to boost both public and private demand is visible in the first quarter GDP figures. As government incentives have been extended until the end 3Q17 and Credit Guarantee Fund scheme has come into full affect in late 1Q17, solid growth performance could be expected to spread throughout the year.

Inflation



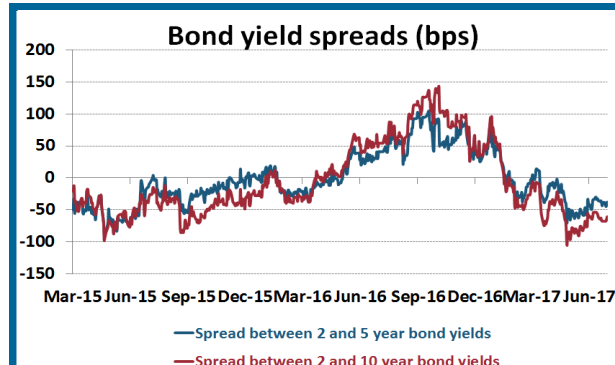
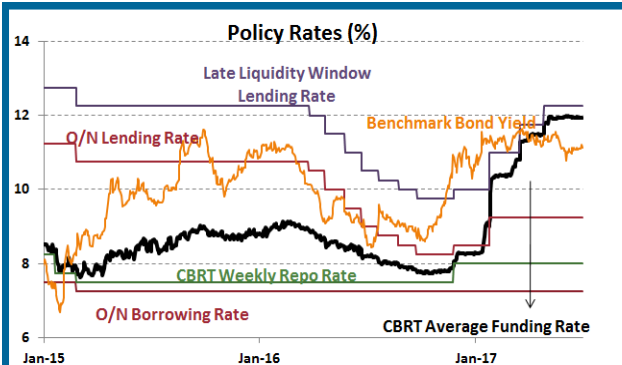
Annual inflation rate decreased for the first time since November 2016...

- CPI in May increased MoM by 0.45%, slightly above the market expectation (0.40%). Food prices decreased by 0.55% bringing annual food inflation up to 16.9% from 15.6% a month ago.
- Annual inflation went down slightly to 11.7% from 11.9% a month ago. Core Inflation indicator C (CPI excluding food, energy, non-alcoholic and alcoholic beverages, tobacco, gold) remains elevated at 9.38%. Producers' price index increased YoY by 16.4%.
- Driven by increasing food prices and rapid depreciation in currency, inflation was on the rise since late 2016. As Turkish Lira stabilizes recently, the modest downward movement in May can be expected to continue during the remainder of the year. However, we believe that inflation is likely to stay in double-digits during the remainder of 2017 and our year-end inflation forecast is at 10%. Therefore, we think that central bank will continue its tight monetary stance until there is significant improvement in inflation dynamics

DenizBank Economic Update

Economy (II)

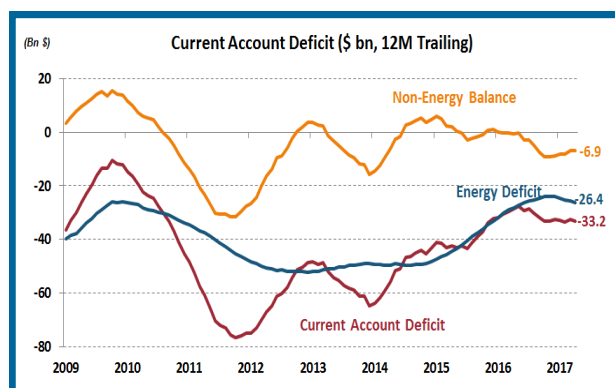
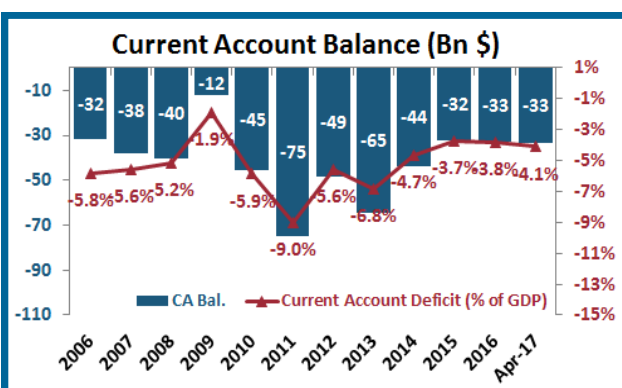
Monetary Policy



CBT kept all rates unchanged at June meeting...

- In its June meeting CBT kept weekly repo, O/N lending and borrowing rates and late liquidity funding lending rate unchanged at 8.0%, 9.25%, 7.25% and 12.25% respectively.
- There were minor changes in the decision statement, indicating that CBT's entire focus has shifted to bringing down inflation and improving expectations. Referral to "risk appetite containing some of the upside pressures from cost factors" have been removed. The bank remains committed to use all available instruments in pursuit of the price stability objective.
- In early May, as inflation reached 11.9%, CBT increased its average funding rate to above 11.9%. CBT's ongoing tight stance and the retreat in inflation from its possible peak in May have led to an initial improvement in inflation expectations. According to CBT's expectations survey, 24 month ahead inflation expectations decreased for the first time in 8 months from 7.93% to 7.90%. Still, it is early to talk about a significant improvement in inflation outlook and current levels are already too high. Therefore, current tight monetary policy stance should be expected to continue in the coming months.

External Sector



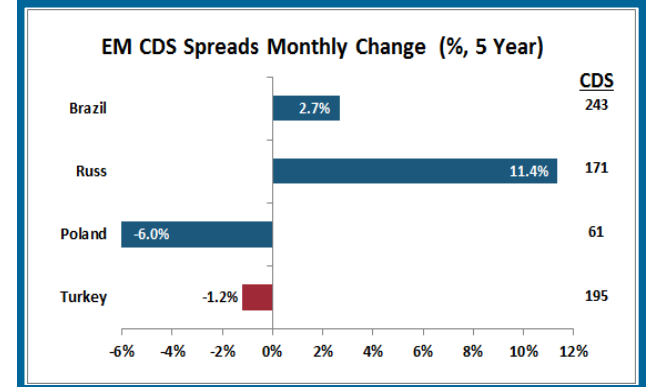
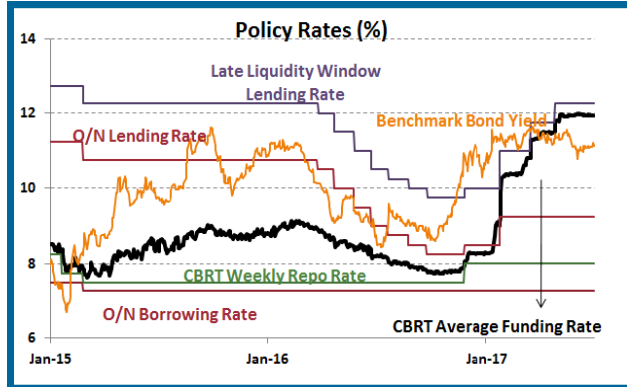
Current account deficit widens as latent effect of oil price surge in 2016 takes its toll..

- Current account deficit (CAD) in April was in line with expectations at \$3.62 bn. 12 month cumulative CAD increased to \$33.2 bn from \$32.7 bn in March (April 2016: \$28.6 bn).
- On the financing side, there has been an FDI inflow of \$0.4 bn in April and net portfolio inflow of \$3.3 bn. Reserve assets decreased by \$3.8 bn and there has been an outflow of \$3.9 bn in net errors and omissions. 12 month cumulative energy deficit went up to \$26.4 bn from \$25.8 bn a month ago. The YoY decrease in annualized tourism revenues slowed down to 28% as revenues have stabilized slightly above \$14 bn.
- As the rate of loan growth accelerated starting by the end of 1Q17, CAD may continue to widen in the remainder of the year. However, factors such as pick up in exports and tourism revenues as well as energy prices remaining low will prevent CAD from reaching unsustainable levels.

DenizBank Economic Update

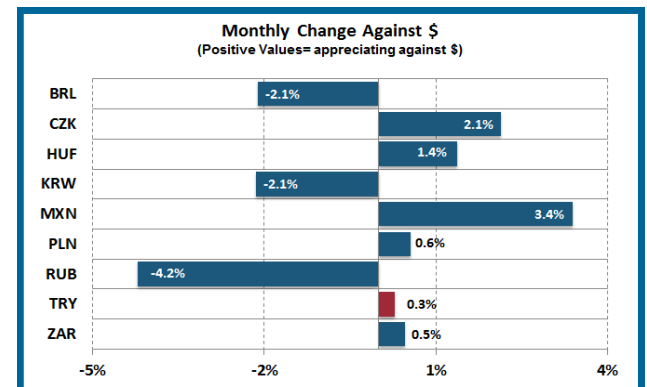
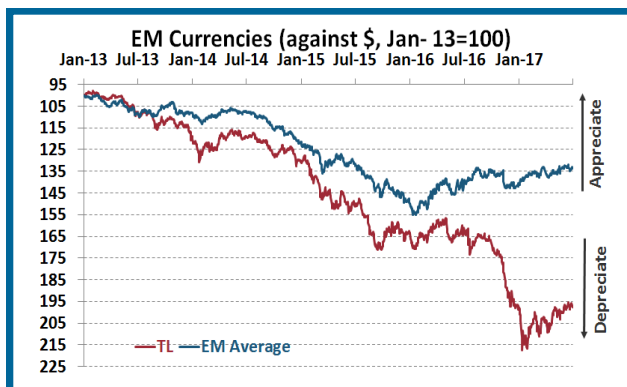
Financial Markets

Debt Market



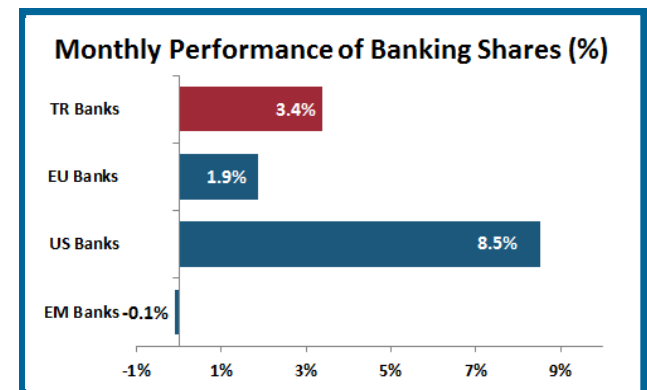
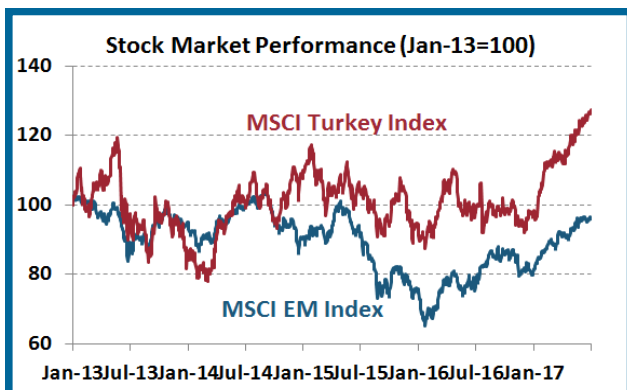
2-year benchmark bond yield is at 11.12%.

Currency Market



EM currencies, on average, remained unchanged.

Stock Market

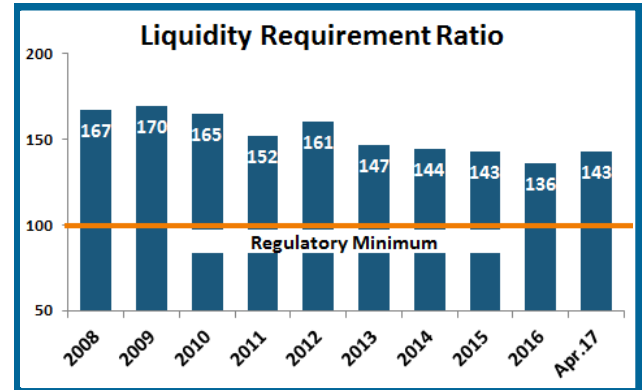
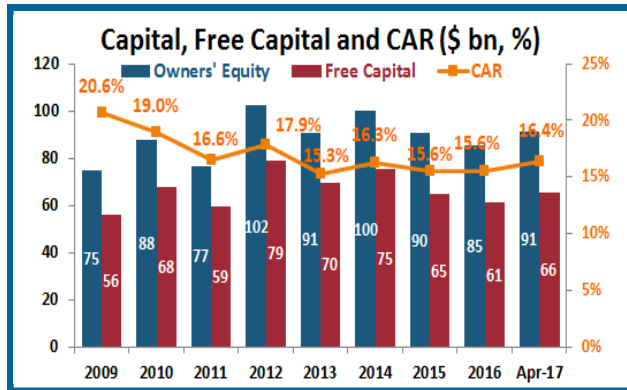


EM equity markets continued to perform well in June with Turkey outperforming its peers.

DenizBank Economic Update

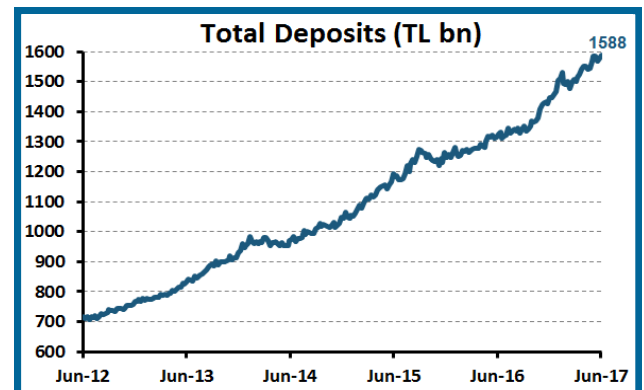
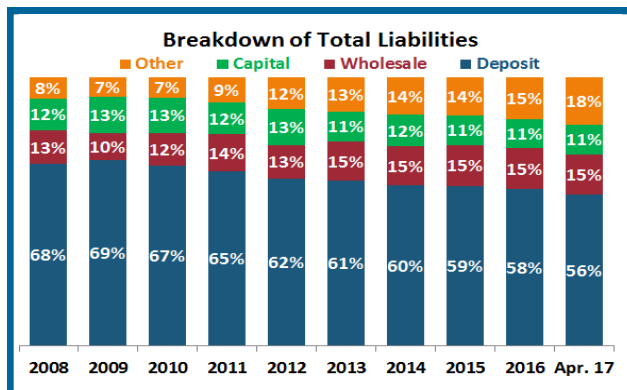
Banking Sector (I)

Capital



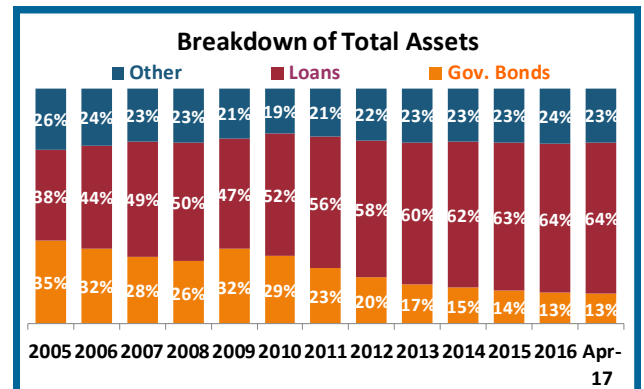
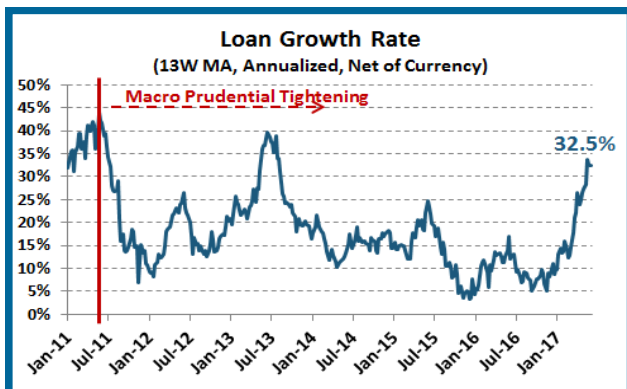
CAR increased to 16.4% in Apr 17.

Funding



Share of deposits in funding was at 56% as of Apr 17.

Lending

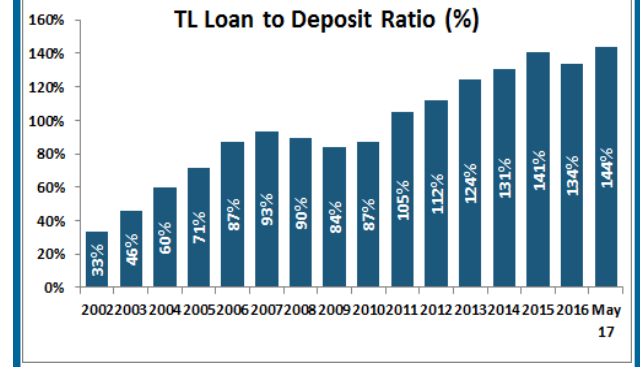
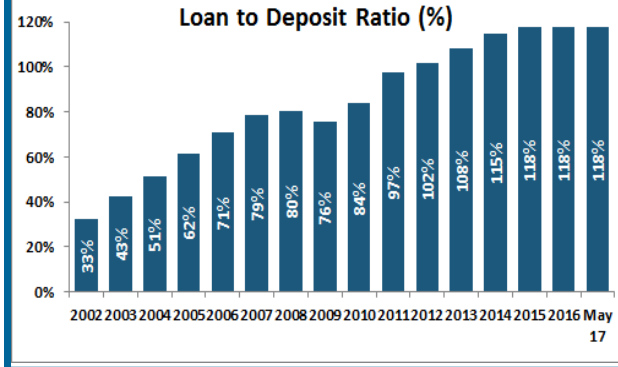


Annualized loan growth is at 32.5% as of Jun 16th.

DenizBank Economic Update

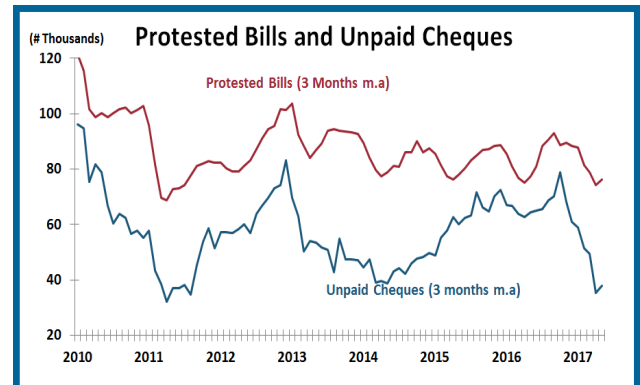
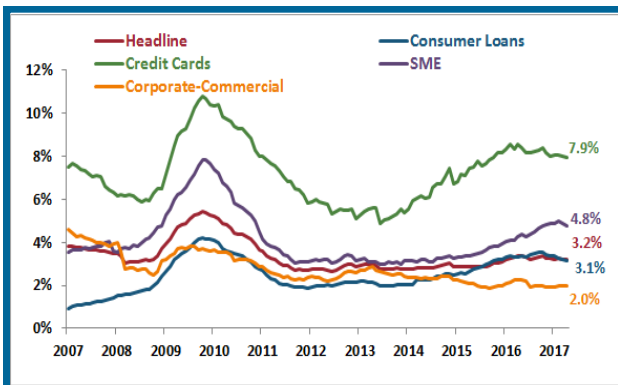
Banking Sector (II)

Loan to Deposit Ratios



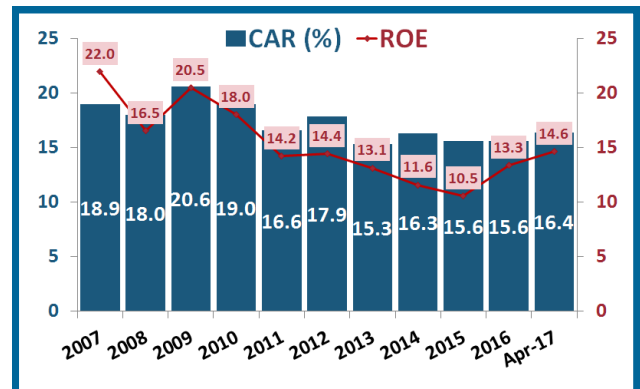
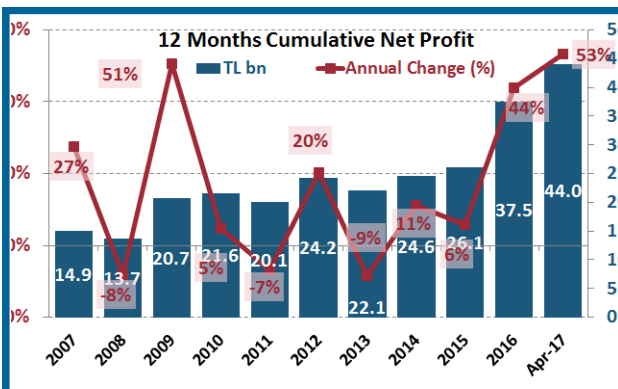
Loan to deposit ratio is 118% in May.

Loan Quality



Headline NPL ratio for the sector is at 3.2% as of Apr 17.

P & L



In Apr 17, banking sector's annual profit increased YoY by 53% while ROE reached 14.6%.